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## **Governor Granholm's 2006 Budget Protects Citizens' Priorities** *Funding Increases for Schools and Job Creation; Health Care Services Protected*

LANSING – State Budget Director Mary A. Lannoye today presented Governor Jennifer M. Granholm's 2006 Executive Budget to a joint session of the House and Senate Appropriations Committees. Granholm has proposed a fiscally responsible budget that protects the state's quality of life and invests in job creation. The budget increases funding for K-12 education and worker training, while reducing overall state spending by nearly \$390 million.

"I am proud to say that in the face of fiscal challenge, we continue to protect the citizens' priorities while streamlining state government," said Granholm. "This budget increases funding for public education, includes initiatives that will create high-paying jobs now and in the future, maintains critical funding for health care services, and provides more money for colleges and universities to repair deteriorating buildings on campuses – all without raising general taxes."

After reducing spending by nearly \$3 billion since taking office, the Governor has outlined a 2006 proposed budget that reduces spending by another \$389.6 million. The budget proposal is balanced and closes a \$773 million general fund shortfall through a responsible mix of spending cuts, revenue enhancements, and fund shifts. The overall budget totals \$41.2 billion and includes \$8.9 billion in general fund spending, \$11.4 billion from the School Aid Fund, \$1.1 billion in revenue sharing payments to local governments, \$3.4 billion for transportation needs, and recognizes \$12.6 billion in federal revenues.

Governor Granholm's budget focuses the state's spending in six priority areas – the same areas that the citizens of Michigan declared as their highest priorities in a series of statewide public meetings with the Governor: improving student achievement; sustaining and creating business investment and jobs in Michigan; making Michigan's people healthier and our families stronger; making government in Michigan more cost-effective and efficient; protecting our citizens and making our communities safer; and enhancing the quality of Michigan's natural environment.

Broken down by goal areas, the Governor's budget includes \$15.7 billion for education, \$14.5 billion for health and human services, \$5 billion to improve the economy, \$680 million for the environment, \$2.9 billion for hometown security, and \$2.4 billion for better government.

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Highlights of the 2006 budget goals include:

- Increases the foundation allowance for K-12 schools by \$175 per student – high schools will receive an additional \$50 per pupil, making the increase in funding for high school \$225 per pupil.
- Increases educational funding for at-risk children by \$33 million.
- Encourages school district cooperation. Includes a \$200,000 grant for a group of ISDs to develop models of regional cooperation in the delivery of services.
- Provides \$770 million for supporting job creation, business retention, and attraction.
- Maintains funding for workforce development, including \$10 million to develop the Michigan Opportunity Partnership, which will fast-track jobs in the health care industry.
- Adds \$150,000 to MiTAPS program to ensure fast permitting for businesses.
- Increases public transportation funding \$12.4 million – ensuring citizens have access to work.
- Protects health care and public assistance benefits for 1.4 million of the state's most vulnerable citizens, including children, seniors, and pregnant women.
- Reduces costs in Medicaid in some areas to ensure that most vulnerable citizens can rely on basic health care – eliminates chiropractic services, implements estate recovery, limits benefits for 19 and 20 year-old young adults.
- Ensures public safety - includes \$1.56 billion to operate safe and secure prisons.
- Keeps Michigan State Troopers on the streets.
- Maintains funding for the operations of Michigan's 97 parks; preserves funding for critical environmental protection programs.

### **Improve Student Achievement:**

To make Michigan an economic powerhouse, the state must have a population that is well-educated and prepared for the jobs of the future. The Governor's budget for fiscal year 2006 recommends total spending for educational services of \$15.7 billion, of which over \$2.1 billion is general fund. This represents more than 38 percent of the total state budget.

To implement recommendations from the Cherry Commission, the Governor is calling on Michigan's K-12 schools to intensify their efforts to ensure that students are ready for post-secondary opportunities. The school aid budget totals \$12.8 billion for 2006, an increase of \$282 million.

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From this, Governor Granholm proposes raising the foundation allowance by \$175 per pupil for all students through the eighth grade. To reflect the higher cost of providing a comprehensive curriculum that prepares students for post-secondary opportunities, high schools will receive an increase of \$225 per pupil. This will bring the minimum foundation allowance to \$6,875 per pupil for K-8 students and \$6,925 for high school students.

Despite Michigan's fiscal challenges, Governor Granholm's budget increases funding for the state's 15 universities and 28 community colleges in both 2005 and 2006. The budget proposes issuing bonds for special maintenance projects at these institutions of up to \$100 million for each of the two years. This increase is offset by a \$30 million reduction in discretionary funding in both years.

While funding for most student financial aid programs is continued at 2005 levels, the Governor proposes increasing support for the Tuition Incentive Program (TIP) by \$2 million to \$12 million, and the elimination of the tuition grant program which provides grants to students attending private colleges.

Other items of significance that will help improve student achievement are: a \$33 million increase in state funding for academically at-risk students funding to \$347.2 million; \$121 million for the Michigan Merit Award; \$80 million in funding for intermediate school district funding; and \$2.6 million to help the transition from the MEAP to the new Michigan Merit Examination.

#### **Sustain and Create Business Investment and Jobs in Michigan:**

To sustain and create business investment and jobs in Michigan, Governor Granholm recommends \$5.02 billion be appropriated in fiscal year 2006, \$89.8 million of which is general fund. This goal represents 12.2 percent of total spending.

The Governor's budget provides \$770 million for programs supporting job creation, retention of existing businesses, and the attraction of new business investment. This includes the preservation of core programs focused on economic development, community development, and the promotion of tourism, historic and cultural resources.

To fuel Michigan's future, the Governor is proposing a bold initiative to enhance the state's competitive edge on research and development frontiers – the 21<sup>st</sup> Century Jobs Initiative. The Governor recommends \$2 billion in general obligation bonds be used over the next 10 years to support emerging research and development in the Technology Tri-Corridor sectors. Once authorized, \$200 million will be available annually to support life sciences, advance automotive manufacturing, and homeland security and defense.

The Governor also recommends an expansive Jobs Today Initiative that will invest nearly \$800 million in infrastructure projects over the next three years. The Governor urges the

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Legislature to act on this measure immediately to put workers on the jobsite as soon as possible and get the economy moving forward. The acceleration of projects is slated for schools, transportation projects, downtown infrastructure, and brownfield redevelopment projects.

Governor Granholm also recommends over \$489.8 million for employment training and services; an expansion of the successful MiTAPs program which accelerates the state's permitting process; an increase in fire protection grants; an increase in the liquor license fees that will generate an extra \$13.1 million in general fund; a \$12.4 increase for public transportation for a total of \$248 million; and continued support to eradicate the Emerald Ash Borer in the state.

#### **Make Michigan's People Healthier and Our Families Stronger:**

Governor Granholm strongly believes that in order for Michigan to be a great place to live and work, we must improve the health of our citizens and strengthen our families. The Governor's recommended budget for fiscal year 2006 includes health and human services spending of \$14.5 billion, \$3.9 billion of general fund.

Increased caseloads and loss of federal funding have pushed the state's Medicaid expenses to record levels. If the state is to continue to provide essential health care services to the most vulnerable, the state must reform our system to save costs wherever possible.

To this end, the Governor proposes reforms to the Medicaid system that will save \$76 million for fiscal year 2006. Some components of the reform include: placing a freeze on Medicaid enrollment for 19 and 20 year-olds; implementation of a Medicaid estate recovery program; elimination of chiropractic services; implementation of a physician provider assessment to increase reimbursement rates; and implementation of a third-share plan to provide medical insurance to low-income families who are not eligible for Medicaid.

The 2006 budget also more than doubles the number of adolescent health centers from 31 to 65 by increasing funding to \$8.5 million. Services in these centers include health care access while encouraging academic achievement and family support.

Additionally, the Governor recommends \$1.2 billion for food assistance funding; \$394.3 million for basic assistance for 78,500 low-income families; \$214 million for foster care support; \$37.3 million for assistance to the disabled; \$29.4 million for health prevention programs; and continued support for 39 school-based Family Resource Centers across the state.

#### **Make Government in Michigan More Cost Effective and Efficient:**

Making state government more cost effective and efficient has been a major goal of Governor Granholm's since she took office. However, in tight budget times, the need to focus on better government is particularly critical. The budget recommendation proposes funding of \$2.38 billion, of which \$466.3 million is general fund. Revenue sharing payments to local units of government are maintained at \$1.1 billion of this overall total.

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To make government more efficient, the Governor recommends contract savings of \$30 million; information technology savings of \$10.2 million; human resource savings of \$1.2 million; and a reduction in building occupancy charges of \$805,000 – just to name a few.

**Protect Our Citizens and Make Michigan's Communities Safer:**

The Governor's proposed budget includes \$2.92 billion, \$2.22 billion in general funds, to protect our citizens and make Michigan's communities safer.

The budget includes \$1.56 billion to operate safe and secure prisons. To minimize spending, the state must control prison growth. Without a change in policy, Michigan would need an additional 1,000 beds in the coming year – forcing the re-opening of two facilities – a cost the state simply cannot afford.

The Governor proposes a comprehensive series of solutions that will negate the need to re-open those facilities and to accommodate this increasing bed-space need. The reforms include revisions to sentencing guidelines, funding for an expansion of local jail capacity, and a re-entry program to help improve parolee success rate. Combined, these initiatives to control prison growth will reduce the need for 2,000 beds over the next three years without jeopardizing public safety.

While the budget proposes administrative savings in the Department of State Police, including the closing of three Michigan State Police posts, it maintains spending at \$121.2 million to support 1,085 state troopers, \$28.6 million in the State Police's forensic science program, and an increase of \$60 million in federal dollars to support homeland security – bringing the total to \$126.2 million.

**Enhance the Quality of Michigan's Environment:**

Efforts to enhance the quality of Michigan's natural environment total \$680 million in spending – of which \$60.6 million is general fund.

The Governor's 2006 budget provides \$45.7 million (\$8.3 million general fund) to support Michigan's surface water quality protection efforts; \$41.3 million for the operation of the state's 97 parks; \$41 million for cleanup and redevelopment at contaminated sites; \$11.5 million (\$5.8 million general fund) for animal disease surveillance and control; \$10 million in Clean Michigan Initiative (CMI) bonds for environmental cleanups; and \$902,500 for the Farmland and Open Space Preservation program.

**Tax Expenditures:**

The Governor recommends that Michigan's budget process be reformed to annually reconsider the effectiveness of tax subsidies to determine if they are achieving their intended purpose and if they are delivering results for citizens.

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Michigan's tax code contains over 170 tax exemptions, or subsidies, which cost the state over \$29 billion per year. Tax expenditures are credits, deductions, and exemptions from existing state taxes. They represent state spending made through the tax system, rather than through the traditional annual budget.

The Governor recommends the elimination of nine tax subsidies, because these expenditures no longer reflect the highest priorities of Michigan citizens. The savings gained from eliminating this spending will be directed toward other high-priority areas. The elimination of these subsidies will save the general fund \$64 million and the School Aid Fund \$48 million in fiscal year 2006. A more detailed list of this proposal can be found in the budget document.

**Solving the 2005 Budget Shortfall:**

January's revenue estimating conference determined that fiscal year 2005 revenues were short of expectations by approximately \$335 million. Additionally, it is estimated that an extra \$40 million will be needed to cover the cost of increasing Medicaid caseloads – bringing the total shortfall to \$375 million. Again, using the budgeting for outcomes process, citizen priorities encourage a sensible mix of solutions be used to solve this problem in order to continue provide necessary services while maintaining our quality of life.

Because the School Aid Fund shortfall has been addressed (by unexpected carry forward from 2004, lower student counts, and proposed reforms), there is no longer the need for the \$99.5 million of general funds appropriated to schools in the December supplemental. The Governor proposes using that money to help correct the 2005 shortfall. The remaining \$275 million problem is addressed by \$124 million in spending cuts; \$40 million in expenditure shifts to restricted funds; and \$16 million in known expenditure lapses.

The Governor also recommends the withdrawal of \$26 million from the Medicaid Benefits Trust Fund and \$68 million from the Budget Stabilization Fund.

“Over the past two years, I have eliminated more than \$3 billion from state spending while guarding the priorities that matter most: protecting our families, educating our children, and building the jobs and economy that will create the strong Michigan we all hope for,” said Granholm. “I am committed to making Michigan an economic powerhouse by continuing to provide the services people value most in the most cost-effective ways possible.”

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A copy of the Governor's recommended budget and related materials are available on the state's web site at [www.michigan.gov/budget](http://www.michigan.gov/budget)